

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, July 12, 2000 -- 9:30 a.m. -- Room 223 State Capitol

Members Present:

Sen. Howard Stephenson, Senate Chair
Rep. Raymond W. Short, House Chair
Sen. Ron Allen
Sen. Mike Dmitrich
Sen. Robert F. Montgomery
Sen. L. Steven Poulton
Sen. John L. Valentine
Rep. Loretta Baca
Rep. Ralph Becker
Rep. Judy A. Buffmire
Rep. Margaret Dayton
Rep. Kevin S. Garn
Rep. Wayne A. Harper
Rep. David M. Jones
Rep. Loraine T. Pace
Rep. Tammy J. Rowan
Rep. Jack A. Seitz

Members Excused:

Rep. Richard L. Walsh

Staff Present:

Mr. Bryant R. Howe,
Research Analyst
Ms. Rebecca L. Rockwell,
Associate General Counsel
Ms. L. Kaye Clark,
Secretary

Note: A list of others present and a copy of materials distributed in the meeting are on file in the Office of Legislative Research and General Counsel.

1. Committee Business – Chair Stephenson called the meeting to order at 9:30 a.m.

MOTION: Rep. Baca moved to approve the minutes of the June 14, 2000 meeting. The motion passed unanimously. Reps. Garn, Harper, and Jones were absent for the vote.

2. Revenue Update – Doug Macdonald, Utah State Tax Commission (Tax Commission), reviewed information included in the report "Key Economic Indicators." He reported that there is a potential surplus in the General Fund and Uniform School Fund totaling approximately \$118 million for fiscal year 2000. He also discussed the effect of changes in the stock market and the possible repeal of the federal inheritance tax on state revenues.

3. Steam Coal Tax Credit -- Legislation Extending Sunset Date – Ms. Rockwell reviewed the draft legislation "Reauthorization of Utah Steam Coal Tax Credit." She explained that the bill extends the Utah steam coal tax credit to repeal effective for taxable years beginning on or after January 1, 2007. She also discussed some potential legal issues related to the credit including issues related to the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the commerce clause of the Constitution of the United States

(federal constitution). She noted that the bill does not make the coal tax credit any more or less consistent with federal law or the federal constitution.

Tom Bingham, Utah Mining Association, commented that the credit is not in conflict with GATT or NAFTA. He agreed to provide information on the tax credit prepared by the National Mining Association.

Sen. Valentine requested that the committee not vote on the legislation until further information is available to assess the possible liability to the state if the coal tax credit is challenged under GATT or NAFTA.

Roger Tew, attorney, provided some background information related to GATT and NAFTA.

Sen. Dmitrich suggested that the Legislature could enact a coal industry sales tax exemption on equipment purchases instead of the current corporate franchise and income and gross receipts tax credit for coal sold to an overseas purchaser.

MOTION: Sen. Valentine moved to place the steam coal tax credit on the August meeting agenda. Sen. Dmitrich declared a conflict of interest. The motion passed unanimously. Reps. Garn, Harper, and Jones were absent for the vote.

4. Olympic Issues Report Required by S.B. 272 (Sales and Use Taxation of Admissions or User Fees -- Olympic Winter Games of 2002) from Olympic Organizing Committee and State Olympic Officer – Roger Black, Salt Lake Olympic Organizing Committee (SLOC), reviewed information contained in the handout "Report to the Revenue and Taxation Interim Committee on the Status of the Implementation of Senate Bill 272," including the status of the Memorandum of Understanding (MOU) and the implementation of public services for the Olympics.

Lane Beattie, State Olympic Officer, discussed issues that need to be resolved to comply with the requirements in S.B. 272. He explained that he will report to the committee again during the interim as required in S.B. 272. He responded to questions regarding the escrow account, local ticket sales, public safety, state liability, budget issues, and the public safety services agreement between the state, SLOC, and various local governments.

5. Master Study Resolution Item: "Industrial Manual Replacement -- to study whether to replace the 1987 Standard Industrial Classification Manual with the 1997 North American Industry Classification System" – Mr. Howe explained that state law currently provides that codes from the Standard Industrial Classification (SIC) system are used to

determine which business establishments qualify for certain sales and use tax exemptions. He informed the committee that there is a new classification system, the North American Industrial Classification System (NAICS), that was developed in 1997 by the federal Office of Management and Budget. He reviewed the handout "References to the 'Standard Industrial Classification (SIC) Manual' in the Utah Tax Code," showing the tax provisions that would be affected if Utah converts references to SIC codes to NAICS codes.

Commissioner Pam Hendrickson, Chair, Tax Commission, explained the need for consistency in codes in forecasting revenues and preparation of fiscal notes.

Rod Marelli, Tax Commission, discussed policy issues related to the use of the codes including potential impacts on some existing exemption categories if conversion takes place. He responded to questions about administrative issues related to flexibility in the categories.

Don Avery, Department of Workforce Services (DWS), stated that DWS assigns both SIC and NAICS codes to new firms that apply to be part of the unemployment compensation program.

Brent Bradford, Department of Environmental Quality, discussed the use of SIC codes in requiring permits and targeting facilities for enforcement and audits. He commented that the federal Environmental Protection Agency plans to change to NAICS codes within two years.

Roger Tew, attorney, discussed the need for the Tax Commission to have flexibility in determining eligibility for sales and use tax exemptions.

Larry Bunkall, Utah Manufacturers Association, commented that the adoption of NAFTA resulted in the need for international codes. He identified some changes in classifications between the SIC and NAICS codes. He recommended the committee proceed with caution when considering changes that impact the sales and use tax exemption classifications.

MOTION: Rep. Pace moved to request that the Tax Review Commission (TRC) study the impact of changing from SIC to NAICS codes. The motion passed unanimously. Reps. Becker, Garn, and Jones were absent for the vote.

6. Other Business – Mr. Howe reported that the TRC will not meet in July.

7. Adjournment

MOTION: Rep. Dayton moved to adjourn the meeting at 12:00 p.m. The motion passed unanimously.

